



## Memorandum 18 /2005

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission  
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### MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Report on SEC Investment Consultant Inquiry

DATE: June 9, 2005

We are enclosing a copy of the “Staff Report Concerning Examinations of Select Pension Consultants” that was issued on May 16 by the Office of Compliance Inspections and Examinations of the Securities and Exchange Commission. Although there are over 1,700 investment advisory firms that provide pension consulting services, the SEC examination focused on 24 firms that the agency deemed to represent a cross-section of the industry. While the agency has indicated that it will take regulatory action against certain unidentified consultants and will ask others to reform their practices, the SEC did not discover any blatant examples of conflicted advice offered by any consultants. Nevertheless, the report does list the several areas of possible conflicts of interest that pension trustees must be wary of in their hiring of consultants. These areas include products (such as performance analysis software) and services that consultants provide to money managers and mutual funds for a fee, conferences held for pension advisory clients that money managers pay to attend, relationships with affiliated or non-affiliated broker-dealers, and the existence of other affiliates (such as transition managers) that may provide services to pension funds. The SEC report expresses concern not only about the potential conflicts inherent in such practices but also the failure of some consultants to properly disclose them to existing or potential clients. The agency also expressed concern that many consultants do not consider themselves fiduciaries to their clients.

Since 2003, PERAC’s Disclosure Forms have required 1) investment consultants to disclose payments of any type that they receive from investment managers and 2) investment managers to disclose payments of any type that are made to investment consultants.

The issues raised in the SEC report are matters that board members must take very seriously and should discuss with their current or prospective consultants. To assist in this task, we are also distributing a recently-issued joint letter from the SEC and the Department of Labor that lists a series of questions that plan sponsors should ask of investment consultants.

Enclosures